

Washington State Liquor Control Board
Retail Services Business Plan

EXECUTIVE SUMMARY

In FY 2004, the Washington State Liquor Control Board will return more than \$245 million in revenue to the state and local communities earned from the sale, licensing and regulation of spirituous liquor, beer and wine. This represents more than a 40 percent return on the state's \$600 million annual investment in its controlled distribution system.

The WSLCB carries out a balanced mission. It protects public safety by ensuring effective licensing, enforcement, regulation and education with respect to all alcohol sold and consumed in the state. It also provides excellent customer service and increased revenue through its wholesale and retail sales operation. It is important to note that the agency's licensing and regulatory activities save the state millions of dollars annually by reducing the statewide costs of alcohol abuse.

In partnership with the State Legislature, the WSLCB has significantly strengthened its retail and wholesale operation in the last two years through a comprehensive strategic planning process. Revenue return has increased at a 6.5 annual rate since 1997, and strategies begun in the first Retail Business Plan – new store openings; store relocations; increased emphasis on customer service; better in-store shelf display and organization; improved technology – are expected to continue and improve that revenue-generation trend.

The 161 state and 154 contract liquor stores serve hundreds of thousands of retail customers annually and conduct a thriving wholesale business with a growing number of restaurants, clubs and other establishments licensed to sell liquor by the drink

The retail and wholesale operation is composed of three principal divisions: *Retail Services, Purchasing Services and the Distribution Center*. To develop a successful Retail Business Plan, these divisions worked closely to identify a set of targets to improve operational efficiency and increase sales. They also worked closely with producers and distributors to gain valuable input and assistance while making needed changes. These improvements focus on establishing best business practices.

The Retail Business Plan that follows represents a commitment to continuing quality improvement by the WSLCB, a more strategic, focused and targeted commitment than those previously attempted by the agency. This commitment is based to a great extent on developing and implementing new analytical models to govern the purchasing, distribution and sale of spirits. Successful retail and wholesale businesses today must follow market trends closely to adapt to changes in consumer buying patterns and to take advantage of new product development. Population growth data plays an important role in the decision-making processes used to develop and relocate stores.

If the WSLCB continues to increase revenue at annual rate of six percent during the next decade, more than \$3 billion will be returned to the state. However, if the agency can return revenue at an eight percent annual rate, that total will grow to \$4 billion, equal to all the revenue the agency has returned to the state in the last 70 years. This plan outlines the types of investments that are needed now to advance the strategic growth of agency revenues: investments in new stores, store relocations, infrastructure, technology and employee training

The following plan calls for continuing, measurable improvement in all basic business practices and outlines a strategy to meet growth in demand for alcohol products in a safe, orderly and sustainable manner. Plan highlights follow:

Supporting Frameworks - Infrastructure

To maintain and improve its retail and wholesale operations the agency must continue to invest in technology improvement. Managing a statewide retail and wholesale network of 315 state and contract stores presents a unique challenge in today's customer-driven market. The agency needs to improve the exchange of information among its stores and with headquarters and the Distribution Center.

Currently, stores are linked to the agency's main computer network through analog phone dial-up, technology abandoned by the retail industry years ago. Slow credit-card processing is the rule, not the exception. Critical inventory and risk management processes are being impeded. Payroll operations and general communication are hindered. Many stores have only one phone line, further impeding communication. A **Wide Area Network** is needed to speed the transfer of vital information and to meet the state requirement for improved online services.

Retail and Wholesale Revenue Enhancement Opportunities

Retail and wholesale revenue can be increased 1) by continuing to develop new stores; 2) by relocating under-performing stores; and 3) by improving store efficiency. New stores in high-growth areas can take advantage of market opportunities not being tapped. Relocating under-performing stores (sometimes to new communities) also increases revenue potential. A more targeted and customer-friendly merchandising plan also can increase store performance.

Merchandising

Customer buying habits are continually changing and customers are increasingly demanding about the types of brands and service offered in state stores. Consumption trends are being monitored more closely to create a more targeted, strategic purchasing and supply chain for the stores. A research-based merchandising program manager is needed to capitalize on these new strategies. Focus on this critical need will help the agency develop improved in-store merchandising strategies and improved shelf management systems, which will result in increased sales and revenues.

Distribution

The new Seattle Distribution Center began operation in April 2002 with a fully automated material handling system. The material handling system is meeting its off-peak season daily shipping demands but is already at its design capacity. If improvements are not made now, the DC will be unable to handle the total volume of product needed to serve the wholesale and retail operation.

Labor needs associated with operating and maintaining this system due to increasing shipping demands, particularly during the holiday season, are an issue and are being addressed through a decision package request for the 2005-07 biennium.

Having a reliable and responsive distribution system is essential to the success of the overall operation. As such, several strategies are outlined in this plan to support this goal.

Customer Service

The cornerstone of any successful retail organization is customer service. Customers expect and demand responsive, knowledgeable sales personnel who keep current on the latest industry trends and who have in-depth product knowledge. Well-trained and well-coached employees are the key to improved customer relations. Employee training produces a direct return on investment through increased sales. In today's demanding retail environment, training is not an option; it is a necessity.

Conclusion

To implement all of the proposals presented in this plan, a substantial investment is needed. The estimated return in increased revenue through Fiscal Years 05-07 as well as beyond will more than offset the investment. In addition, other proposals and strategies will continue to be evaluated. This Retail Business Plan will continue to be reviewed and will evolve as the environment changes and as more or new information becomes available. At a minimum, the LCB will review this plan quarterly and update the plan annually.